

STATE OF MONTANA  
OFFICE OF THE CONSUMER COUNSEL  
FINANCIAL-COMPLIANCE AUDIT FOR THE  
TWO FISCAL YEARS ENDED JUNE 30, 1987  
PERFORMED UNDER CONTRACT BY:  
JAMES J. WOSEPKA  
CERTIFIED PUBLIC ACCOUNTANT

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FINANCIAL-COMPLIANCE AUDIT FOR THE  
TWO FISCAL YEARS ENDED JUNE 30, 1987

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA  
CERTIFIED PUBLIC ACCOUNTANT

MONTANA CONSUMER COUNCIL  
1015 E. CHAVE  
HELENA, MONTANA 59620



STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
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DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET  
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI  
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

September 1987

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Consumer Counsel for the  
two fiscal years ending June 30, 1987.

The audit was conducted by James J. Wosepka, CPA under a contract  
between the firm and our office. The comments and recommendations  
contained in this report represent the views of the firm and not  
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is  
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", is written over a horizontal line.

Scott A. Seacat  
Legislative Auditor



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ELECTED AND APPOINTED OFFICIALS  
LEGISLATIVE CONSUMER COMMITTEE

1985-1987

SENATORS

Stan Stephens \*  
Chet Blaylock  
Darryl Meyer \*\*

REPRESENTATIVES

Joe Quilici  
Earl Lory

Consumer Counsel - James C. Paine

\* Terminated December 31, 1986  
\*\* Began March 6, 1987



## SUMMARY OF RECOMMENDATIONS

### Page

#### Recommendation

The State's Property and Accountability Management System should be updated on a timely basis.

3

Agency Response: Concur, See Page 11



## INTRODUCTION

I performed a financial-compliance audit of the Consumer Counsel for the two fiscal years ended June 30, 1987. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Consumer Counsel's results of operations for the two fiscal years ended June 30, 1987; (2) determine if the office complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Consumer Counsel.

This report contains recommendations to the Consumer Counsel. These recommendations address areas where the Consumer Counsel can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the Consumer Counsel's programs are not specifically included in the report, but have been discussed with management.

In accordance with Section 5-13-307, MCA, I analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

I thank the staff of the Consumer Counsel for their cooperation and assistance during my audit.

## BACKGROUND

Article XIII of the Montana Constitution of 1972 created the Consumer Counsel giving it the responsibility of representing consumer interests in hearings before the Public Service Commission. The Consumer Counsel has the ability to initiate, intervene in, or participate in the proper proceedings in the courts or administrative agencies, on behalf of the Montana public interests. The Office of the Consumer Counsel is funded by a Consumer Counsel tax that is assessed on all the regulated entities that are under the jurisdiction of the Public Service Commission.

## INTERNAL CONTROL

I have examined the financial schedules of the Consumer Counsel for the two fiscal years ended June 30, 1987. I issued my opinion dated September 18, 1987 on these schedules. As part of my examination, I made a study and evaluation of the Consumer Counsel's control system. My study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance



## INTERNAL CONTROL (Cont.)

audits. I classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

My study included the control categories listed above. I applied alternative audit tests to property, plant and equipment as I determined it was more efficient to expand substantive testing for this area. Through my study, I determined the nature, timing, and extent of my auditing procedures. I did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Consumer Counsel is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of my study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of controls used by the Consumer Counsel.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

The following report items discuss areas of concern noted during my audit of the Consumer Counsel.





## RECOMMENDATION

### FIXED ASSETS

#### Findings:

A review of the State's Property and Accountability Management System for the counsel indicated that new acquisitions had not been added to the detail at year end.

#### Recommendation:

I recommend that the detail be updated on a timely basis.

### PRIOR REPORT RECOMMENDATIONS

There had been four recommendations from the June 30, 1985 audit report. All four recommendations have been followed or implemented.

### STATE COMPLIANCE

I reviewed compliance with state laws that could have a material impact on the financial schedules of the Consumer Counsel. In my opinion, the Consumer Counsel complied with the state laws and regulations tested. Nothing came to my attention that causes me to believe untested compliance issues are not in accordance with applicable laws and regulations.



**AUDITOR'S REPORT**  
**AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY**



# JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

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## The Legislative Audit Committee of the Montana State Legislature

I have examined the financial schedules of the Consumer Counsel, for each of the fiscal years ending June 30, 1987 and 1986, as listed in the table of contents. My examination was made in accordance with generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the Counsel's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In my opinion, the schedules noted above present fairly the revenues, expenditures and the changes in fund balance of the fund of the Consumer Counsel for each of the fiscal years ended June 30, 1987 and 1986, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.



Baker, Montana  
September 18, 1987



CONSUMER COUNSEL  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1985	\$ <u>360,177</u>
ADDITIONS	
Nonbudgeted Revenue & Transfers In	<u>811,727</u>
Total Additions	<u>811,727</u>
REDUCTIONS	
Budgeted Expenditures & Transfers Out	461,316
Prior Year Expenditure Adjustments	<u>(7,390)</u>
Total Reductions	<u>453,926</u>
FUND BALANCE: June 30, 1986	\$ <u>717,978</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.





CONSUMER COUNSEL  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1986	\$ <u>717,978</u>
ADDITIONS	
Cash Transfers In	443,063
Prior Year Expenditure Adjustments	<u>6,473</u>
Total Additions	<u>449,536</u>
REDUCTIONS	
Budgeted Expenditures & Transfers Out	<u>522,623</u>
Total Reductions	<u>522,623</u>
FUND BALANCE: June 30, 1987	\$ <u>644,891</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.



CONSUMER COUNSEL  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Consumer</u> <u>Counsel</u>
PERSONAL SERVICES	
Salaries	\$144,055
Employee Benefits	<u>24,616</u>
Total	<u>168,671</u>
OPERATING EXPENSES	
Contracted Services	233,365
Supplies & Materials	3,076
Communications	7,064
Travel	16,230
Rent	6,600
Repair & Maintenance	623
Other Expenses	<u>6,670</u>
Total	<u>273,628</u>
EQUIPMENT AND INTANGIBLE ASSETS	
Equipment	<u>19,018</u>
Total	<u>19,018</u>
TOTAL PROGRAM EXPENDITURES	<u>\$461,317</u>
SPECIAL REVENUE FUND	
Budgeted	\$881,776
Actual	<u>461,316</u>
Unspent Budget Authority	<u>\$420,460</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.



CONSUMER COUNSEL  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Consumer Counsel</u>
PERSONAL SERVICES	
Salaries	\$144,222
Employee Benefits	<u>26,075</u>
Total	<u>170,297</u>
OPERATING EXPENSES	
Contracted Services	308,202
Supplies & Materials	1,721
Communications	6,984
Travel	16,953
Rent	7,200
Repair & Maintenance	1,891
Other Expenses	<u>6,650</u>
Total	<u>349,601</u>
EQUIPMENT AND INTANGIBLE ASSETS	
Equipment	<u>2,725</u>
Total	<u>2,725</u>
TOTAL PROGRAM EXPENDITURES	<u>\$522,623</u>
 SPECIAL REVENUE FUND	
Budgeted	\$852,691
Actual	<u>522,623</u>
Unspent Budget Authority	<u>\$330,068</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.



## CONSUMER COUNSEL

### NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1987 AND 1986

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Accounting

The Consumer Counsel utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

##### Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund type is used by the Consumer Counsel:

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.





## CONSUMER COUNSEL

### NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1987 AND 1986

#### Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Consumer Counsel. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1987 and 1986 the office had a liability for compensated absences of \$12,648 and \$13,052 respectively.

#### 2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The Consumer Counsel's contributions to the plan are shown below:

	<u>Fiscal Year</u> <u>1986-87</u>	<u>Fiscal Year</u> <u>1985-86</u>
PERS	\$9,145	\$9,041

Defined benefits under the plan are based on years of service and final average of the participants. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plan were determined actuarially sound as reported by the system's actuary at June 30, 1986.

#### 3. GENERAL FIXED ASSETS

The Consumer Counsel records assets on the State's Property and Accountability Management System. A schedule of the changes in the fixed assets balance from July 1, 1985 to June 30, 1987 follows:

	<u>Balance</u> <u>July 1, 1985</u>	<u>Net</u> <u>Additions</u>	<u>Balance</u> <u>June 30, 1987</u>
Equipment	\$15,720	\$19,377*	\$35,097

\* includes \$1,153 not entered in PAM'S



# CONSUMER COUNSEL

## NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1987 AND 1986

### 4. OPERATING LEASE

The Consumer Counsel leases office space under an operating lease expiring April 15, 1989. Minimum future rental payments under the lease are:

Year Ended <u>June 30</u>	<u>Amount</u>
1988	\$ 7,200
1989	<u>5,700</u>
Total Minimum future rental payments	\$12,900 =====

Total Rental expense under the lease is as follows:

Year Ended <u>June 30</u>	<u>Amount</u>
1987	\$ 7,200
1986	<u>6,600</u>

### 5. PURCHASE CONTRACT

The Consumer Counsel entered into an Installation and Maintenance Agreement to purchase, install and maintain telecommunications equipment on January 29, 1985. The contract is for a period of sixty months, payable in equal monthly installments of \$54.91 for a total of \$3,295, including interest at a rate of 10.32%, for a total interest charge of \$730, and total principle of \$2,565.

Maintenance is provided by the seller at no cost for the first twelve months. Charges to be paid by the Office after the first twelve months are as follows:

Year 2 of Agreement	\$ 191
Year 3 of Agreement	206
Year 4 of Agreement	223
Year 5 of Agreement	<u>241</u>
Total Maintenance Charges	\$ 861 =====

### 6. BUDGET

The budget for each year included a contingency appropriation of \$100,000 for unanticipated cases.



## AGENCY RESPONSES



# MONTANA CONSUMER COUNSEL

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## STATE OF MONTANA

LEGISLATIVE CONSUMER COMMITTEE  
SEN CHET BLAYLOCK  
SEN DARRYL MEYER  
REP JOE QUILICI  
REP EARL LORY

October 6, 1987

Mr. James J. Wosepka, CPA  
PO Box 1097  
41 Central Avenue South  
Beach ND 58621

Re: Draft Audit Report of Consumer Counsel

Dear Mr. Wosepka,

I have reviewed the draft copy of your audit report for the Montana Consumer Counsel provided with your letter of September 30.

Concerning your recommendation that our PAMS should be updated on a more timely basis, we concur and will pursue that goal.

We appreciated your professional and congenial attitude during our audit.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James C. Paine".

James C. Paine  
Montana Consumer Counsel

JCP/cf







